

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Lawton	County Van Buren
Fiscal Year End February 28, 2007	Opinion Date August 17, 2007	Date Audit Report Submitted to State August 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

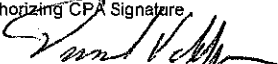
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not considered necessary	
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 communication	
Certified Public Accountant (Firm Name) Siegfried Crandall, PC		Telephone Number (269)381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
Zip 49002			
Authorizing CPA Signature 		Printed Name Daniel L. Veldhuizen, CPA	License Number 1101020724

Village of Lawton
Van Buren County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended February 28, 2007

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INDEPENDENT AUDITORS' REPORT

**To the Members of the Village Council
Village of Lawton, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Lawton, Michigan, as of February 28, 2007, and for the year then ended, which collectively comprise the Village of Lawton, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Lawton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Lawton, Michigan, as of February 28, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 14 to the financial statements, the Village recorded a prior period adjustment to correct its method of accounting for receivables of the governmental activities and of the Library Fund.

The budgetary comparison schedules, listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village of Lawton, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Members of the Village Council
Village of Lawton, Michigan
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lawton, Michigan's basic financial statements. The accompanying supplementary data is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

August 17, 2007

BASIC FINANCIAL STATEMENTS

Village of Lawton
STATEMENT OF NET ASSETS
February 28, 2007

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,239,388	\$ 642,710	\$ 1,882,098
Receivables	174,904	67,137	242,041
Inventory	-	50,376	50,376
	<u>1,414,292</u>	<u>760,223</u>	<u>2,174,515</u>
Total current assets			
Noncurrent assets:			
Capital assets not bring depreciated - land	217,843	239,375	457,218
Capital assets, net of accumulated depreciation	<u>1,105,672</u>	<u>2,820,208</u>	<u>3,925,880</u>
	<u>1,323,515</u>	<u>3,059,583</u>	<u>4,383,098</u>
Total assets	<u>2,737,807</u>	<u>3,819,806</u>	<u>6,557,613</u>
LIABILITIES			
Current liabilities:			
Payables	-	12,500	12,500
Customer deposits	50	34,130	34,180
Current portion of long-term obligations	<u>-</u>	<u>90,000</u>	<u>90,000</u>
Total current liabilities	50	136,630	136,680
Noncurrent liabilities - long-term obligations	<u>-</u>	<u>1,240,000</u>	<u>1,240,000</u>
Total liabilities	<u>50</u>	<u>1,376,630</u>	<u>1,376,680</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,323,515	1,729,583	3,053,098
Restricted for:			
Public safety	10,716	-	10,716
Public works	459,905	-	459,905
Culture and recreation	141,067	-	141,067
Unrestricted	<u>802,554</u>	<u>713,593</u>	<u>1,516,147</u>
Total net assets	<u>\$ 2,737,757</u>	<u>\$ 2,443,176</u>	<u>\$ 5,180,933</u>

See notes to the financial statements

Village of Lawton
STATEMENT OF ACTIVITIES
Year ended February 28, 2007

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for services</u>	<u>Operating grants and contributions</u>
Governmental activities:			
Legislative	\$ 7,127	\$ -	\$ -
General government	347,783	32,248	-
Public safety	298,311	7,208	4,396
Public works	137,487	913	185,975
Culture and recreation	122,127	20,653	72,611
Community and economic development	<u>11,437</u>	<u>-</u>	<u>-</u>
Total governmental activities	924,272	61,022	262,982
Business-type activities:			
Water and sewer	<u>460,218</u>	<u>487,077</u>	<u>-</u>
Totals	<u>\$ 1,384,490</u>	<u>\$ 548,099</u>	<u>\$ 262,982</u>

General revenues:

Property taxes
State shared revenue
Franchise fees
Interest income

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (7,127)		\$ (7,127)
(315,535)		(315,535)
(286,707)		(286,707)
49,401		49,401
(28,863)		(28,863)
<u>(11,437)</u>		<u>(11,437)</u>
 <u>(600,268)</u>		 <u>(600,268)</u>
	\$ <u>26,859</u>	<u>26,859</u>
<u>(600,268)</u>	<u>-</u>	<u>(573,409)</u>
 550,293	 -	 550,293
201,067	-	201,067
12,827	-	12,827
<u>53,862</u>	<u>25,287</u>	<u>79,149</u>
<u>818,049</u>	<u>25,287</u>	<u>843,336</u>
 217,781	 52,146	 269,927
<u>2,519,976</u>	<u>2,391,030</u>	<u>4,911,006</u>
<u>\$ 2,737,757</u>	<u>\$ 2,443,176</u>	<u>\$ 5,180,933</u>

See notes to the financial statements

Village of Lawton
BALANCE SHEET - governmental funds
February 28, 2007

	<u>Major funds</u>			<u>Nonmajor fund</u>	<u>Total governmental funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Library</u>	<u>Local Street</u>	
ASSETS					
Cash	\$ 632,592	\$ 324,002	\$ 104,738	\$ 108,032	\$ 1,169,364
Receivables	110,704	20,393	36,329	7,478	174,904
Total assets	<u>\$ 743,296</u>	<u>\$ 344,395</u>	<u>\$ 141,067</u>	<u>\$ 115,510</u>	<u>\$ 1,344,268</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Customer deposits	\$ 50	\$ -	\$ -	\$ -	\$ 50
Deferred revenue	80,740	-	3,494	-	84,234
Total liabilities	<u>80,790</u>	<u>-</u>	<u>3,494</u>	<u>-</u>	<u>84,284</u>
Fund balances:					
Reserved for:					
Criminal training programs	10,350	-	-	-	10,350
Drug enforcement programs	366	-	-	-	366
Unreserved	651,790	344,395	137,573	-	1,133,758
Unreserved reported in nonmajor - special revenue fund	-	-	-	115,510	115,510
Total fund balances	<u>662,506</u>	<u>344,395</u>	<u>137,573</u>	<u>115,510</u>	<u>1,259,984</u>
Total liabilities and fund balances	<u>\$ 743,296</u>	<u>\$ 344,395</u>	<u>\$ 141,067</u>	<u>\$ 115,510</u>	<u>\$ 1,344,268</u>

Total fund balances - all governmental funds \$ 1,259,984

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 1,223,101

Certain assets used in *governmental activities* are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 84,234

An internal service fund is used by management to charge costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in *governmental activities* in the statement of net assets. 170,438

Net assets of *governmental activities* (page 5) \$ 2,737,757

See notes to the financial statements

Village of Lawton

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds**

Year ended February 28, 2007

	Major funds			Nonmajor fund	Total governmental funds
	General	Major Street	Library	Local Street	
REVENUES					
Property taxes	\$ 519,237	\$ -	\$ 34,413	\$ -	\$ 553,650
Licenses and permits	19,295	-	-	-	19,295
State grants	210,832	112,941	1,359	41,145	366,277
Contributions from local units	26,520	-	70,315	-	96,835
Charges for services	22,797	-	-	-	22,797
Fines and forfeitures	1,653	-	19,737	-	21,390
Interest and rentals	32,858	14,844	3,670	4,942	56,314
Other	2,035	-	1,851	-	3,886
Total revenues	835,227	127,785	131,345	46,087	1,140,444
EXPENDITURES					
Legislative	7,127	-	-	-	7,127
General government	333,299	-	-	-	333,299
Public safety	292,359	-	-	-	292,359
Public works	76,370	114,352	-	84,397	275,119
Community and economic development	11,437	-	-	-	11,437
Culture and recreation	21,938	-	102,770	-	124,708
Capital outlay	24,587	-	2,693	-	27,280
Total expenditures	767,117	114,352	105,463	84,397	1,071,329
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	68,110	13,433	25,882	(38,310)	69,115
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	32,000	32,000
Transfers out	(32,000)	-	-	-	(32,000)
Total other financing sources (uses)	(32,000)	-	-	32,000	-
NET CHANGES IN FUND BALANCES	36,110	13,433	25,882	(6,310)	69,115
FUND BALANCES - BEGINNING	626,396	330,962	111,691	121,820	1,190,869
FUND BALANCES - ENDING	\$ 662,506	\$ 344,395	\$ 137,573	\$ 115,510	\$ 1,259,984

See notes to the financial statements

Village of Lawton

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - *governmental funds* (Continued)**

Year ended February 28, 2007

Net change in fund balances - total governmental funds (page 8)	\$ 69,115
Amounts reported for <i>governmental activities</i> in the statement of activities (Page 6) are different because:	
Capital assets:	
Current year additions	192,952
Provisions for depreciation	(34,984)
Net change in deferred revenue	1,609
Net loss of the internal service fund is reported with <i>governmental activities</i> .	<u>(10,911)</u>
Change in net assets of <i>governmental activities</i> (page 6)	<u>\$ 217,781</u>

See notes to the financial statements

Village of Lawton
STATEMENT OF NET ASSETS - proprietary funds
February 28, 2007

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Water and sewer</u>	<u>Internal service</u>
ASSETS		
Current assets:		
Cash	\$ 642,710	\$ 70,024
Receivables	67,137	-
Inventory	50,376	-
Total current assets	<u>760,223</u>	<u>70,024</u>
Noncurrent assets:		
Capital assets not bring depreciated - land	239,375	-
Capital assets, net of accumulated depreciation	<u>2,820,208</u>	<u>100,414</u>
Total noncurrent assets	<u>3,059,583</u>	<u>100,414</u>
Total assets	<u>3,819,806</u>	<u>170,438</u>
LIABILITIES		
Current liabilities:		
Payables	12,500	-
Customer deposits	34,130	-
Current portion of long-term debt	<u>90,000</u>	<u>-</u>
Total current liabilities	136,630	-
Noncurrent liabilities - long-term obligations	<u>1,240,000</u>	<u>-</u>
Total liabilities	<u>1,376,630</u>	<u>-</u>
NET ASSETS		
Investment in capital assets, net of related debt	1,729,583	100,414
Unrestricted	<u>713,593</u>	<u>70,024</u>
Total net assets	<u>\$ 2,443,176</u>	<u>\$ 170,438</u>

See notes to the financial statements

Village of Lawton**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - *proprietary funds****Year ended February 28, 2007*

	<i>Business-type activities</i>	<i>Governmental activities</i>
	<i>Water and sewer</i>	<i>Internal service</i>
OPERATING REVENUES		
Charges for services:		
Public utility fees	\$ 485,827	\$ -
Equipment rental	-	91,050
Total operating revenues	<u>485,827</u>	<u>91,050</u>
OPERATING EXPENSES		
Sewer	196,069	-
Water	142,582	-
Motor pool	-	75,996
Depreciation	<u>91,486</u>	<u>29,778</u>
Total operating expenses	<u>430,137</u>	<u>105,774</u>
Operating income (loss)	<u>55,690</u>	<u>(14,724)</u>
NONOPERATING REVENUES (EXPENSES)		
Connection fees	1,250	-
Interest revenue	25,287	3,163
Gain on sale of capital assets	-	650
Interest expense	<u>(30,081)</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>(3,544)</u>	<u>3,813</u>
CHANGES IN NET ASSETS	52,146	(10,911)
NET ASSETS - BEGINNING	<u>2,391,030</u>	<u>181,349</u>
NET ASSETS - ENDING	<u>\$ 2,443,176</u>	<u>\$ 170,438</u>

See notes to the financial statements

Village of Lawton**STATEMENT OF CASH FLOWS - proprietary funds**

Year ended February 28, 2007

	<i>Business-type activities</i>	<i>Governmental activities</i>
	<i>Water and sewer</i>	<i>Internal service</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 484,065	\$ 91,050
Payments to vendors and suppliers	(272,998)	(52,268)
Payments to employees	(83,031)	(23,728)
Net cash provided by operating activities	128,036	15,054
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection fees	1,250	-
Proceeds from sale of capital assets	-	650
Acquisition of capital assets	(400,339)	(59,964)
Principal payments on capital debt	(85,000)	-
Interest payments on capital debt	(30,881)	-
Net cash used in capital and related financing activities	(514,970)	(59,314)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	25,287	3,163
NET DECREASE IN CASH	(361,647)	(41,097)
CASH - BEGINNING	1,004,357	111,121
CASH - ENDING	\$ 642,710	\$ 70,024

See notes to the financial statements

Village of Lawton

STATEMENT OF CASH FLOWS - *proprietary funds* (Continued)

Year ended February 28, 2007

	<i>Business-type activities</i>	<i>Governmental activities</i>
	<i>Water and sewer</i>	<i>Internal service</i>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 55,690	\$ (14,724)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	91,486	29,778
Increase in:		
Receivables	(1,762)	-
Inventory	(19,683)	-
Increase in:		
Customer deposits	2,305	-
Net cash provided by operating activities	<u>\$ 128,036</u>	<u>\$ 15,054</u>

See notes to the financial statements

Village of Lawton
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Lawton, Michigan (the Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying financial statements present only the Village. There are no component units, entities for which the Village is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the use of allocated state gas and weight taxes used for the maintenance and construction of major streets within the Village.
- The Library Fund accounts for the operations of a public library within the Village. Revenues are primarily derived from local unit contributions, penal fines, and property taxes.

The Village reports the following major proprietary fund:

- The Water and Sewer Fund accounts for the activities of the Village's water distribution system and sewage collection system and treatment plant.

Additionally, the Village reports the following fund type:

- The Motor Vehicle Pool Fund, an internal service fund, accounts for vehicle and equipment management services provided to other departments of the Village on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible, and all are due within one year.

iii) Inventory of supplies:

Supplies inventory is stated at cost (as determined on the first-in, first-out basis).

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer and water systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The Village has elected to account for its infrastructure assets prospectively, beginning March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Furniture, fixtures, and equipment	5 - 10 years
Vehicles	5 years
Infrastructure	50 years

v) Compensated absences:

Vacation leave is earned in varying amounts depending upon years of service and is fully vested when earned. Vacation leave is accrued as a liability based on the vacation leave accumulated at the balance sheet date.

The Village accrues half the sick leave benefits earned by the employees as a vested amount. Sick leave is recorded as a liability based on half the sick leave accumulated at the balance sheet date. The Village does not accrue for the unused accumulated sick pay that is nonvested. Unrecorded sick pay at February 28, 2007, is \$25,904. Such accumulations are reduced to the maximum amount allowed as a termination payment, based on certain limitations.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

vi) Property tax revenue recognition:

The Village property tax is levied each July 1 on the assessed values as of December 31 of the prior year. Village property taxes are recognized when levied. Taxes are payable to the Village from July 1 to March 1, at which time the uncollected portion is reimbursed to the Village by the Van Buren County revolving tax fund.

vii) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year. There were no significant budget variances during the current fiscal year.

NOTE 3 - CASH:

The Village's cash, as presented in the accompanying financial statements, is as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Deposits	\$ <u>1,239,388</u>	\$ <u>642,710</u>	\$ <u>1,882,098</u>

State statutes and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Village's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At February 28, 2007, \$1,806,391 of the Village's bank balances of \$1,907,141 was exposed to custodial credit risk because it was uninsured.

The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

Receivables as of year end of the Village's funds were as follows:

	<i>Property taxes</i>	<i>Accounts</i>	<i>Inter- governmental</i>	<i>Totals</i>
Governmental funds:				
General Fund	\$ 75,085	\$ 1,821	\$ 33,798	\$ 110,704
Major Street Fund	-	-	20,393	20,393
Library Fund	3,565	-	32,764	36,329
Other governmental	-	-	7,478	7,478
Totals	<u>\$ 78,650</u>	<u>\$ 1,821</u>	<u>\$ 94,433</u>	<u>\$ 174,904</u>
Proprietary funds:				
Water and Sewer Fund	<u>\$ -</u>	<u>\$ 67,137</u>	<u>\$ -</u>	<u>\$ 67,137</u>

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended February 28, 2007, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 217,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,843</u>
Capital assets being depreciated:				
Vehicles	177,452	22,997	15,375	185,074
Land improvements	102,686	-	-	102,686
Furniture, fixtures, and equipment	483,655	64,820	11,300	537,175
Infrastructure	217,174	150,552	-	367,726
Buildings and improvements	<u>811,377</u>	<u>14,547</u>	<u>-</u>	<u>825,924</u>
Subtotal	<u>1,792,344</u>	<u>252,916</u>	<u>26,675</u>	<u>2,018,585</u>
Less accumulated depreciation for:				
Vehicles	(137,800)	(14,588)	15,375	(137,013)
Land improvements	(41,734)	(4,627)	-	(46,361)
Furniture, fixtures, and equipment	(428,167)	(24,275)	11,300	(441,142)
Infrastructure	(452)	(6,057)	-	(6,509)
Buildings and improvements	<u>(266,673)</u>	<u>(15,215)</u>	<u>-</u>	<u>(281,888)</u>
Subtotal	<u>(874,826)</u>	<u>(64,762)</u>	<u>26,675</u>	<u>(912,913)</u>
Total capital assets being depreciated, net	<u>917,518</u>	<u>188,154</u>	<u>-</u>	<u>1,105,672</u>
Governmental activities capital assets, net	<u>\$ 1,135,361</u>	<u>\$ 188,154</u>	<u>\$ -</u>	<u>\$ 1,323,515</u>

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Water and Sewer Fund:				
Capital assets not being depreciated - land	\$ 239,375	\$ -	\$ -	\$ 239,375
Capital assets being depreciated:				
Collection and distribution system	3,759,673	379,635	-	4,139,308
Equipment	86,126	8,092	-	94,218
Subtotal	3,845,799	387,727	-	4,233,526
Less accumulated depreciation for:				
Collection and distribution system	(1,240,504)	(88,883)	-	(1,329,387)
Equipment	(81,328)	(2,603)	-	(83,931)
Subtotal	(1,321,832)	(91,486)	-	(1,413,318)
Total capital assets being depreciated, net	2,523,967	296,241	-	2,820,208
Business-type activities capital assets, net	\$ 2,763,342	\$ 296,241	\$ -	\$ 3,059,583

Depreciation expense was charged to governmental activities as follows:

General government	\$ 11,423
Public safety	3,025
Public works	6,710
Recreation and culture	13,826
Depreciation on capital assets held by internal service fund	29,778
Total governmental activities	\$ 64,762

NOTE 6 - LONG-TERM OBLIGATIONS:

At February 28, 2007, long-term obligations are comprised of the following individual issue:

The Water and Sewer Fund has an outstanding balance of \$1,330,000 on the 1998 \$1,900,000, 2.25% Wastewater Treatment Improvement Project Revenue Bonds. The bonds are due in annual principal installments of \$85,000 to \$115,000, plus interest through April 2020.

Long-term obligation activity for the year ended February 28, 2007, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Business-type activities:					
Sewer Fund 1998 Bonds	\$ 1,415,000	\$ -	\$ 85,000	\$ 1,330,000	\$ 90,000

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM OBLIGATIONS (Continued):

At February 28, 2007, debt service requirements are as follows:

<u>Year ended</u> <u>February 28</u>	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 90,000	\$ 28,913
2009	90,000	26,888
2010	95,000	24,807
2011	95,000	22,669
2012	100,000	20,475
2013-2017	520,000	68,067
2018-2020	<u>340,000</u>	<u>11,592</u>
Totals	<u>\$ 1,330,000</u>	<u>\$ 203,411</u>

All debt is secured by the full faith and credit of the Village.

NOTE 7 - TAX REVENUE:

Tax revenue is comprised of current property taxes (real and personal) levied during the year ended February 28, 2007, and the administrative fee charged during that period. The following information is presented regarding the taxes levied and administrative fees collected concerning a major taxpayer:

	<u>Total tax</u> <u>revenue</u>	<u>Major</u> <u>taxpayer</u>	<u>Taxpayer</u> <u>percentage</u>
Current property taxes	\$ 548,212	\$ 130,504	
Administrative fees	<u>5,438</u>	<u>1,318</u>	
	<u>\$ 553,650</u>	<u>\$ 131,822</u>	24%

NOTE 8 - PAYABLES:

Payables as of year end of the Village's funds were as follows:

	<u>Accounts</u>	<u>Accrued</u> <u>interest</u>	<u>Totals</u>
Governmental funds:			
General Fund	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ 50</u>
Proprietary funds:			
Water and Sewer Fund	<u>\$ -</u>	<u>\$ 12,500</u>	<u>\$ 12,500</u>

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - SEGMENT INFORMATION - ENTERPRISE FUND:

Segment information for the Water and Sewer Fund, an enterprise fund, for the year ended February 28, 2007 is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues	\$ 240,123	\$ 245,704	\$ 485,827
Depreciation	45,033	46,453	91,486
Operating income	52,508	3,182	55,690
Change in net assets	66,402	(14,256)	52,146
Fixed asset additions	8,093	392,246	400,339
Net working capital	363,046	260,547	623,593
Total assets	1,455,129	2,577,183	4,032,312
Long-term debt	-	1,240,000	1,240,000
Total net assets	1,438,064	1,005,112	2,443,176

A major commercial customer accounts for revenues of \$190,224, which represents 40% of total water and sewer revenues for the year ended February 28, 2007.

NOTE 10 - PENSION PLAN:

The Village sponsors a defined contribution plan for all full time employees. Employees are allowed to contribute amounts subject to IRS limitations. The Village makes a matching contribution (not to exceed 5% of covered payroll) for all personnel who contribute to the plan. For the year ended February 28, 2007, the Village and covered employees contributed \$21,923 and \$30,071, respectively to the plan.

The Village has no administrative or fiduciary responsibilities over the plan or plan assets. Accordingly, activity and balances of the plan are not included in these financial statements.

NOTE 11 - CLAIMS ARISING FROM RISKS OF LOSS:

The Village is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$2,000,000, building contents, workers' compensation, and casualty are managed through purchased commercial insurance.

NOTE 12 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended February 28, 2007, is as follows:

Revenues	\$ 5,555
Expenses	<u>(5,740)</u>
Deficiency of revenues over expenses	<u>\$ (185)</u>

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 13 - INTERFUND TRANSFERS:

The interfund transfer for the year ended February 28, 2007, is as follows:

<u>Fund</u>	<u>Transfer in</u>	<u>Fund</u>	<u>Transfer out</u>
Local Street	\$ <u>32,000</u>	General	\$ <u>32,000</u>

This transfer moved unrestricted revenues, collected in the General Fund, to the Local Street Fund to contribute the required 50 percent match for street construction costs within the Local Street Fund.

NOTE 14 - PRIOR PERIOD ADJUSTMENTS:

A prior period adjustment has been recorded in 2007 that resulted in a restatement of net assets. Net assets as of March 1, 2006, included in the government-wide financial statements, represent a restated balance as presented below. The following schedule identifies the nature and amount of the adjustment recorded.

	<u>Net assets</u> <u>Governmental</u> <u>activities</u>
Beginning of year, as previously reported	\$ 2,492,847
Prior period adjustment:	
Understatement of receivables	<u>27,129</u>
Beginning of year, as restated	\$ <u>2,519,976</u>

A prior period adjustment has been recorded in 2007 that resulted in a restatement of fund equity. Fund equity as of March 1, 2006, included in the fund statements, represents a restated balance as presented below. The following schedule identifies the nature and amount of the adjustment recorded.

	<u>Library Fund</u>
Beginning of year, as previously reported	\$ 84,562
Prior period adjustment:	
Understatement of receivables	<u>27,129</u>
Beginning of year, as restated	\$ <u>111,691</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended February 28, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 505,800	\$ 505,800	\$ 519,237	\$ 13,437
Licenses and permits	17,900	17,900	19,295	1,395
State grants	214,998	214,998	210,832	(4,166)
Contributions from local units	22,000	22,000	26,520	4,520
Charges for services	21,500	21,500	22,797	1,297
Fines and forfeitures	3,000	3,000	1,653	(1,347)
Interest and rentals	28,322	28,322	32,858	4,536
Other	1,000	1,000	2,035	1,035
Total revenues	<u>814,520</u>	<u>814,520</u>	<u>835,227</u>	<u>20,707</u>
EXPENDITURES				
Legislative - Village Council	<u>11,900</u>	<u>11,900</u>	<u>7,127</u>	<u>4,773</u>
General government:				
President	1,320	1,320	940	380
Elections	500	500	474	26
Clerk	63,000	63,000	59,918	3,082
Treasurer	5,400	5,400	5,053	347
Hall and grounds	25,575	25,575	20,149	5,426
Financial administration	90,000	90,000	77,795	12,205
Insurance and bonds	193,700	193,700	142,436	51,264
Cemetery	<u>36,000</u>	<u>36,000</u>	<u>26,534</u>	<u>9,466</u>
Total general government	<u>415,495</u>	<u>415,495</u>	<u>333,299</u>	<u>82,196</u>
Public safety:				
Police protection	287,100	287,100	283,054	4,046
Crossing guards	7,900	7,900	6,788	1,112
Civil forfeitures	<u>3,000</u>	<u>3,000</u>	<u>2,517</u>	<u>483</u>
Total public safety	<u>298,000</u>	<u>298,000</u>	<u>292,359</u>	<u>5,641</u>
Public works:				
Public works department	7,260	7,260	4,982	2,278
Sidewalks	36,100	36,100	6,053	30,047
Streets	<u>77,800</u>	<u>77,800</u>	<u>65,335</u>	<u>12,465</u>
Total public works	<u>121,160</u>	<u>121,160</u>	<u>76,370</u>	<u>44,790</u>

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended February 28, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	\$ 14,400	\$ 14,400	\$ 11,437	\$ 2,963
Recreation and cultural:				
Parks and recreation	25,200	25,200	17,180	8,020
Museum	300	300	39	261
Civic betterment	6,500	6,500	4,719	1,781
Total recreation and cultural	32,000	32,000	21,938	10,062
Capital outlay	40,880	40,880	24,587	16,293
Total expenditures	933,835	933,835	767,117	166,718
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(119,315)	(119,315)	68,110	187,425
OTHER FINANCING USES				
Transfer to Local Street Fund	(32,000)	(32,000)	(32,000)	-
NET CHANGES IN FUND BALANCES	(151,315)	(151,315)	36,110	187,425
FUND BALANCES - BEGINNING	626,396	626,396	626,396	-
FUND BALANCES - ENDING	\$ 475,081	\$ 475,081	\$ 662,506	\$ 187,425

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**

Year ended February 28, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 105,000	\$ 105,000	\$ 112,941	\$ 7,941
Interest	5,000	5,000	14,844	9,844
 Total revenues	<u>110,000</u>	<u>110,000</u>	<u>127,785</u>	<u>17,785</u>
 EXPENDITURES				
Public works:				
Construction	87,600	87,600	90,825	(3,225)
Administration	4,050	4,050	3,408	642
Routine maintenance	16,300	16,300	9,688	6,612
Winter maintenance	<u>13,800</u>	<u>13,800</u>	<u>10,431</u>	<u>3,369</u>
 Total expenditures	<u>121,750</u>	<u>121,750</u>	<u>114,352</u>	<u>7,398</u>
 NET CHANGES IN FUND BALANCES	(11,750)	(11,750)	13,433	25,183
 FUND BALANCES - BEGINNING	<u>330,962</u>	<u>330,962</u>	<u>330,962</u>	<u>-</u>
 FUND BALANCES - ENDING	<u>\$ 319,212</u>	<u>\$ 319,212</u>	<u>\$ 344,395</u>	<u>\$ 25,183</u>

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - Library Fund**

Year ended February 28, 2007

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 32,650	\$ 32,650	\$ 34,413	\$ 1,763
State grants	2,100	2,100	1,359	(741)
Contributions from local units	64,250	64,250	70,315	6,065
Fines and forfeitures	18,100	18,100	19,737	1,637
Interest	2,000	2,000	3,670	1,670
Other	<u>2,400</u>	<u>2,400</u>	<u>1,851</u>	<u>(549)</u>
Total revenues	<u>121,500</u>	<u>121,500</u>	<u>131,345</u>	<u>9,845</u>
EXPENDITURES				
Culture and recreation:				
Salaries and wages	59,000	59,000	50,096	8,904
Payroll taxes and fringe benefits	7,130	7,130	6,361	769
Office supplies	530	530	390	140
Operating supplies	3,100	3,100	2,844	256
Telephone	1,500	1,500	1,417	83
Electric	3,200	3,200	3,297	(97)
Heat	1,300	1,300	1,052	248
Custodial services	2,100	2,100	1,929	171
Repairs and maintenance	3,000	3,000	3,992	(992)
Building and equipment rental	1,140	1,140	1,126	14
Miscellaneous	1,500	1,500	3,380	(1,880)
Books, magazines, and periodicals	24,000	24,000	17,830	6,170
Audio and video cassettes	10,800	10,800	7,665	3,135
Memberships and dues	1,000	1,000	313	687
Education and training	700	700	244	456
Software	1,500	1,500	834	666
Capital outlay	<u>3,200</u>	<u>3,200</u>	<u>2,693</u>	<u>507</u>
Total expenditures	<u>124,700</u>	<u>124,700</u>	<u>105,463</u>	<u>19,237</u>
NET CHANGES IN FUND BALANCES	(3,200)	(3,200)	25,882	(9,392)
FUND BALANCES - BEGINNING	<u>111,691</u>	<u>111,691</u>	<u>111,691</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 108,491</u>	<u>\$ 108,491</u>	<u>\$ 137,573</u>	<u>\$ (9,392)</u>

SUPPLEMENTARY DATA

Village of Lawton**SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS -****\$1,900,000 1998 Wastewater treatment improvement project bonds**

February 28, 2007

<i>Fiscal period</i>	<i>Interest requirement</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirement</i>
	<i>April 1</i>	<i>October 1</i>			
2008	\$ 14,963	\$ 13,950	04/01/08	\$ 90,000	\$ 118,913
2009	13,950	12,938	04/01/09	90,000	116,888
2010	12,938	11,869	04/01/10	95,000	119,807
2011	11,869	10,800	04/01/11	95,000	117,669
2012	10,800	9,675	04/01/12	100,000	120,475
2013	9,675	8,550	04/01/13	100,000	118,225
2014	8,550	7,425	04/01/14	100,000	115,975
2015	7,425	6,244	04/01/15	105,000	118,669
2016	6,244	5,063	04/01/16	105,000	116,307
2017	5,063	3,828	04/01/17	110,000	118,891
2018	3,828	2,588	04/01/18	110,000	116,416
2019	2,588	1,294	04/01/19	115,000	118,882
2020	1,294	-	04/01/20	115,000	116,294
	<u>\$ 109,187</u>	<u>\$ 94,224</u>		<u>\$ 1,330,000</u>	<u>\$ 1,533,411</u>

**Members of the Village Council
Village of Lawton, Michigan**

In planning and performing our audit of the financial statements of the Village of Lawton as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Lawton's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

The Village does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

This communication is intended solely for the information and use of the Village Council of the Village of Lawton and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Siegfried Crandall P.C.

August 17, 2007